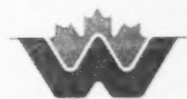


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Our Vision

A dynamic and prosperous
West in a strong Canada.

Our Mission

A leading source of strategic
insight, conducting and
communicating non-partisan
economic and public policy
research of importance to
the four western provinces
and all Canadians.

CURRENTS

Western Canada's
Monthly Economic Bulletin

Vol. 2008, No. 11 a CanadaWest foundation publication

Monthly Highlights

Canadian employment was little changed in October with 9,500 jobs created nationally. The employment picture was similarly flat in the West as a jump of 14,700 jobs in Alberta was offset by a decline of 8,300 jobs in BC, while job numbers for Manitoba and Saskatchewan were essentially flat. Alberta's employment rate (the percentage of working-age people who are employed) reached 72.5%, the highest on record. BC's unemployment rate is now 5.1%, the highest in almost two years.

Consumer price inflation reached 3.4% in September nationally (year-to-year), driven mainly by higher energy and food prices. In the West, September inflation rates were at or below the national average. Alberta had the lowest inflation at 2.8%, the lowest since December 2005, due to lower natural gas.

Retail sales declined for a second month in a row in the West (-0.4%) in August. The largest decline was in BC where sales were down 0.9% following a similar drop (-1.0%) in July.

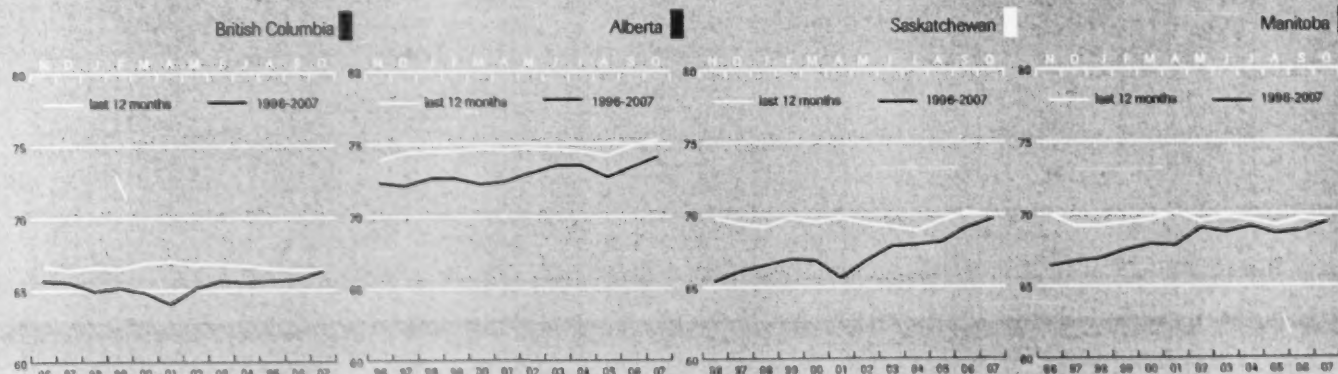
Meanwhile, wholesale trade jumped 4.6% in August in the West compared to a decline of 1.5% nationally. Growth was very solid in Saskatchewan (+5.2%), Alberta (+5.1%) and BC (+5.5%). Lower wholesale trade in Manitoba (-2.8%) offset the overall advance.

August manufacturing sales were up in Manitoba (+5.7%) and Saskatchewan (+1.0%), the only two provinces showing gains that month as national manufacturing sales dropped 3.7%.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,311.1	2,038.6	519.3	607.2	17,215.8	October
% change, 3-month ma, yoy	2.1	2.5	3.1	1.3	1.4	
Unemployment rate (SA, %)	5.1	3.7	4.0	4.3	6.2	October
Participation rate (SA, %)	68.4	75.3	70.0	69.5	67.9	October
Average weekly earnings (SA, \$)	786.84	871.85	760.46	727.33	792.56	August
% change, 3-month ma, yoy	1.7	4.2	4.1	2.6	2.6	
CPI inflation, annual (%)	3.3	2.8	3.4	3.0	3.4	September
Building permits: residential (SA, \$ millions)	591.4	432.1	84.2	138.4	3,301.1	August
% change, 3-month ma, yoy	8.7	45.1	22.0	35.7	11.3	
Building permits: non-residential (SA, \$ millions)	327.7	594.2	249.7	60.9	3,190.8	September
% change, 3-month ma, yoy	-2.5	15.7	102.1	61.2	14.8	
Housing starts (SAAR, 000s)	375	24.6	74	5.5	218.6	September
% change, 3-month ma, yoy	-8.3	-48.8	11.1	-4.6	13.5	
Retail trade (SA, \$ millions)	4,742	5,083	1,216	1,252	35,855	August
% change, 3-month ma, yoy	1.6	0.8	12.4	7.4	4.3	
Wholesale trade (SA, \$ millions)	4,660	6,066	2,024	1,110	45,670	August
% change, 3-month ma, yoy	-1.2	13.0	63.3	7.4	5.8	
Manufacturing sales (SA, \$ millions)	3,314	6,028	1,193	1,451	51,990	August
% change, 3-month ma, yoy	-7.8	15.6	34.0	2.8	4.7	

Source: Statistics Canada. yoy=year over year, SA=seasonally adjusted, SAAR=seasonally adjusted at annual rates

Labour Market Participation Rate (%)



Did you know?

➔ Built in 1904, the Union Bank Tower, an 11-storey Chicago School style building at the corner of Winnipeg's Main Street and William Avenue, was western Canada's first skyscraper.

➔ Canada has the highest tertiary education attainment of the OECD countries; 46.1% of the population aged 25-64. In 2003, Russia had a rate of 54.6%.

➔ Canada has one of the lowest rates of public social expenditure of the OECD countries, at 17.3% of GDP, above only that of the US, Ireland, Turkey, Mexico and Korea.

➔ Alberta produces 46% of Canada's barley, 34% of Canada's canola, 30% of the country's wheat, 23% of Canada's honey and 100% of the nation's sugar beets.

➔ Only 4% of the world's oceanic waters have not been damaged by human activity.

➔ Canadians send 45.3 million text messages per day.

PROVINCIAL ACCOUNTS

The Report Cards Are In

Earlier this month Statistics Canada released the final version of its Provincial Economic Accounts (PEA) for 2007. The PEA represents the only economy-wide set of statistics for the provinces. Here is how the four western provinces performed.

Real GDP in BC rose 3.0% in 2007, following a growth rate of 4.4% in 2006. Alberta's economy advanced 3.1%, slower than the 6.1% increase of 2006. In Saskatchewan, GDP grew by 2.5%, rebounding from the 0.3% decline in 2006. Manitoba posted real growth of 3.3%, in line with the 4.0% increase in 2006.

Overall, just like in 2006, each western province except Saskatchewan grew faster than the national average (+2.7% in 2007).

Household spending accelerated in Saskatchewan (+6.4%) and in Manitoba (+5.0%). It decelerated but remained very robust in Alberta (+6.5%) and in BC (+5.2%).

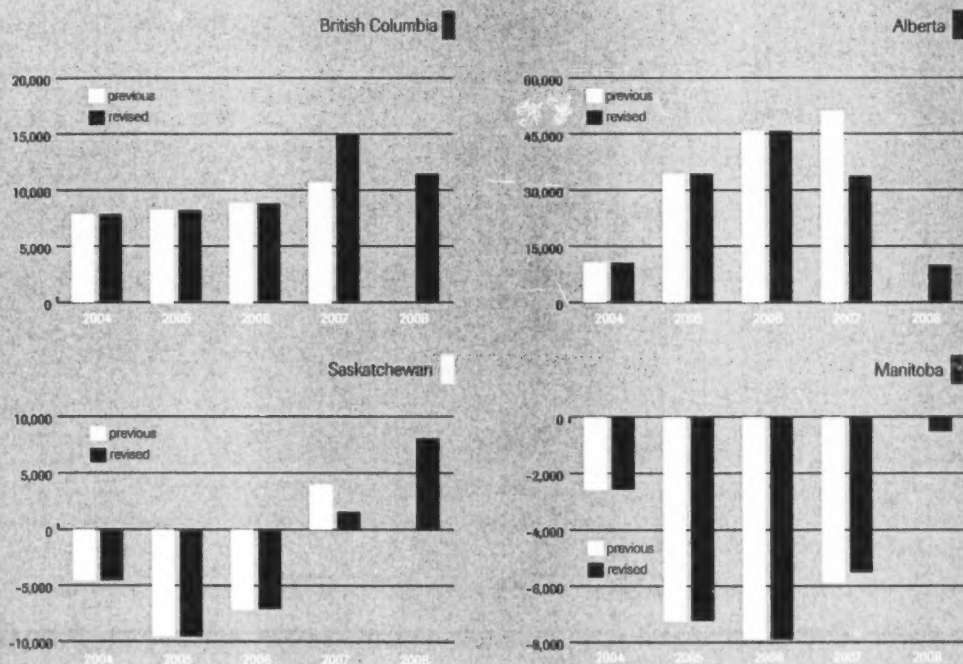
Business and public sector investment growth in Alberta and Saskatchewan paused in 2007 after a number of boom years. Investment in Alberta edged

BEHIND THE NUMBERS

In September Statistics Canada released a first set of population numbers for 2008, including data on net interprovincial migration. While BC wins the "population churn" game with 11,458 net gains, Saskatchewan is the top story, posting its highest number of net interprovincial migrants on record (data start in 1972).

Estimates for 2007 were also revised. We often tend to overlook revisions and focus on the most recent data points, but in this case revisions matter quite a bit, especially for Alberta, where the net result for 2007 is now two-thirds of the initial number. In Saskatchewan's case, the first positive number in decades was cut down as well but it remains in the black.

Net Annual Interprovincial Migration



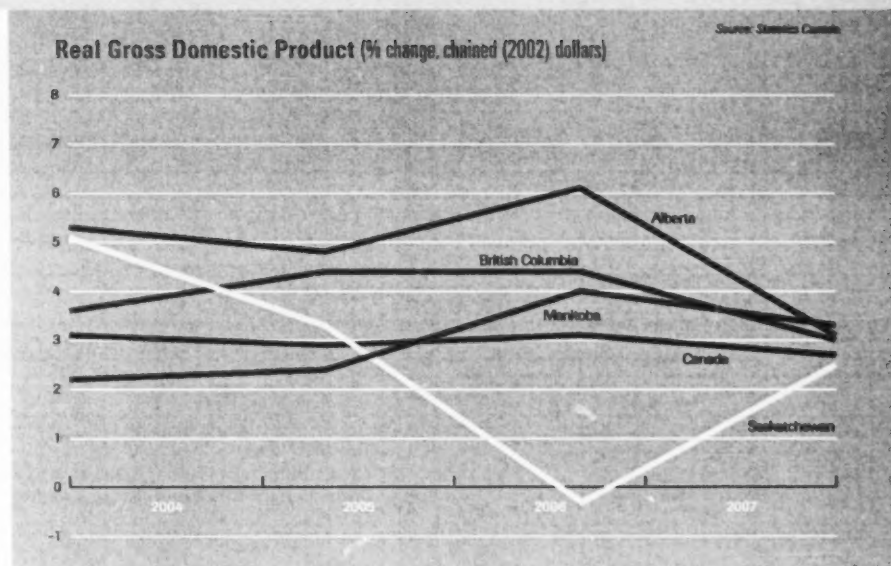
up 0.3%, remaining nearly 60% above its level of five years earlier. The investment boom is now centered in Manitoba, surging by 15.1% in 2007, with construction work ongoing at several large projects around the province. Meanwhile, investment in BC was up a solid 2.4% in 2007.

All provinces showed a deterioration of their real trade balance (international and interprovincial combined) as imports grew faster than exports. BC had the dubious honour of being the only western province where real exports actually declined (-0.3%) in 2007. The last time BC's exports fell was in 2001.

Growth in labour income (wages, salaries and supplementary labour income) was especially strong in Alberta (+11.3%), which was far ahead of the other three provinces. Manitoba's labour income growth of 7.3% had a positive impact on home building and retail trade.

BC corporate profits fell for the first time since 2002 (-3.2%) as American markets for lumber and wood products weakened significantly. Saskatchewan corporate profits surged 18.5% thanks to high world prices for grains, potash and uranium. Profits in Manitoba were markedly up as well (+15.1%).

On an industry basis, output growth in the service sector significantly outpaced the goods-producing sector in each province except Manitoba, where both construction and manufacturing are surging. Goods



production averaged -0.4% in BC, Alberta and Saskatchewan while it reached 3.3% in Manitoba.

Alberta mining, oil and gas extraction declined 0.9%, partly reflecting reduced exploration activity. In Saskatchewan, potash mining bounced back on the strength of increased demand from China, pulling the resource sector up 1.9%.

Activity in the trade sectors was very strong across the West in 2007, with Saskatchewan the clear winner thanks to double-digit GDP

growth in both the retail (+12.7%) and the wholesale (+15.7%) sectors.

As to the finance, insurance and real estate sector (which is the largest one overall in the West), Alberta posted the best growth at 5.7%, nearly double the pace of last-place Manitoba (+3.1%).

The next update to the Provincial Economic Accounts will feature preliminary estimates for 2008. It will be available next April.

Industry Spotlight: Nanotechnology

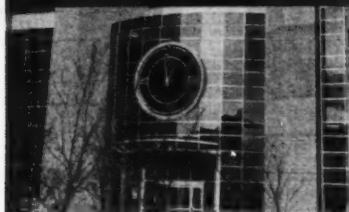
Nanotechnology, an emerging industry cluster in Edmonton, refers to the manipulation of atoms and molecules in order to create new materials or build small-scale machines. Corrosion-resistant metals and bacteria-resistant medical devices are two examples. Nanotechnology has applications in a variety of fields including biotechnology, logistics, medicine and communications.

Edmonton's nanotechnology industry is anchored by the National Institute for Nanotechnology (NINT), which was established in 2001 through a joint partnership between the National Research Council of Canada and the University of Alberta. NINT's mission is to create knowledge and support innovation in nanoscale science and technology with a long-term focus on relevance and value for Alberta and Canada. The Edmonton nanotechnology cluster consists of 19 world-renowned commercial organizations, including Scanimetrics, Micralyne Inc. and Sci-Med Laboratories Inc.

The Alberta government has set as a strategic goal that by 2020 Alberta will achieve a 2% share of the global nanotechnology market, which could reach \$1.5 trillion US annually by 2015. This past August the Alberta Centre for Advanced Microsystems and Nanotechnology (ACAMP) opened in Edmonton with \$11.5 in provincial and federal funding. The centre will support the commercialization of nanotechnology products.



Micralyne operators performing steps for photo lithography. Photo courtesy of Micralyne Inc.



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A Celtic Tiger is Caged: Lessons for Western Canada

by Todd Hirsch, for the Canada West Foundation

For the better part of this decade, Ireland has been held up as the shining example of how to harness the forces of globalization. It was dubbed the Celtic Tiger, rising from little more than a sad potato farm to a fiercely competitive centre for software, pharmaceuticals, and high-tech research.

Now, thanks to the current global financial meltdown, the Celtic Tiger has been sedated, chained up, and thrown in a cage. Its once hot real estate sector has turned ice cold, and exports have plummeted. Ireland's government now forecasts the economy will shrink by more than 1.5% this year and by another 1.0% next year, while the unemployment rate will rise from around 4% in 2007 to 7.3% in 2009.

Western Canada can learn from both Ireland's spectacular rise over the past 20 years and its subsequent fall over the past six months.

First of all, the West can take some tips from Ireland's economic turnaround. Back in the early 1980s, it was the backwater of the EU, plagued with high unemployment and a steady outflow of migration. But with a few key policy initiatives and a lot of political will, it was able to mount a stunning comeback. By the early 2000s, it was an economic powerhouse.

Cutting taxes in the late 1980s is credited with much of the reversal of fortune; yet it would be a mistake to suggest that low taxes was the only – or even the most important – factor. Massive investments in public education in the 1960s, a strategy of targeting winning sectors, and aggressive pursuit of foreign direct investment did most of the heavy lifting in Ireland. On top of it all, Ireland emphasized the important role that creativity and imagination play in generating wealth.

Western Canada can learn from these actions, particularly the emphasis that Ireland placed on fostering a bright, well-educated and creative workforce. Of course, it makes no sense to replicate exactly what Ireland did. The winning sectors that worked for Ireland won't be the same winning sectors that work for the West.

The biggest lesson of all, however, is that it is possible to completely re-invent an economy. Ireland didn't grow into the Celtic Tiger by growing bigger potatoes, or by implementing a better agricultural policy to keep more people at home on the farms. It went a totally different direction, getting into the globalization game and proving it could win.

But now, in an almost cruel twist of irony, Ireland's economy has the distinction of being the very first European country likely to enter recession. What happened to the Celtic Miracle?

Part of it was a classic real estate bubble. Housing and commercial real estate prices had been on fire for the better part of a decade, especially in Dublin where apartment rents and house prices were excluding many from the market altogether. With the whiff of the global market downturn, housing prices dropped steeply.

Another part of the problem for Ireland is that exports have stalled. Having hitched their wagon so tightly to the US for foreign direct investment, Ireland is now suffering more than other EU countries from the American malaise.

A third element has to do with the government's fiscal position. Tax revenues in Ireland are drying up quickly. After having kept taxes so low for so long, Ireland has very little fiscal room in which to maneuver. In a crisis-management style budget unveiled earlier in October, the Irish government is now raising income taxes and slashing spending – actions that are certain to exacerbate the economic slowdown.

The lesson for western Canada? Low taxes are great, but there will invariably come a time when the economy is sputtering, and a dose of tax cuts will be just what the doctor orders. If a government is busy cutting taxes during the good economic times, there won't be room to cut taxes during the bad economic times.

Ireland's economic fall from grace will be temporary. Along with the rest of the global economy, it will be back. It may take a year or two, but the investments it has made in education, attracting investment, and fostering a creative economy will once again prove to be wise.

Western Canada needs to pay attention to Ireland's experiences. Investments in education will always pay dividends. Strategic targeting of foreign investment holds great potential. But when it comes to cutting taxes as a means of spurring economic growth, it is all in the timing. ■

Todd Hirsch is the author of *"More Than Just Lucky Shamrocks: The Re-Invention of Ireland and Lessons for Western Canada"* that is part of the Canada West Foundation's *Going For Gold Project*.